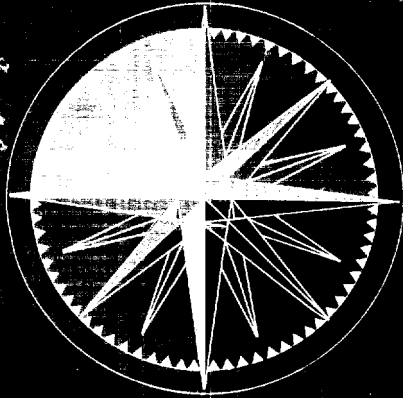


SECRET

ease 2006/12/27 : CIA-RDP79-00927A004400080004-4

17 April 1964

OCI No. 0327/64C
Copy No.



SPECIAL REPORT

RECENT ACTIVITIES OF ITALY'S STATE PETROLEUM CORPORATION

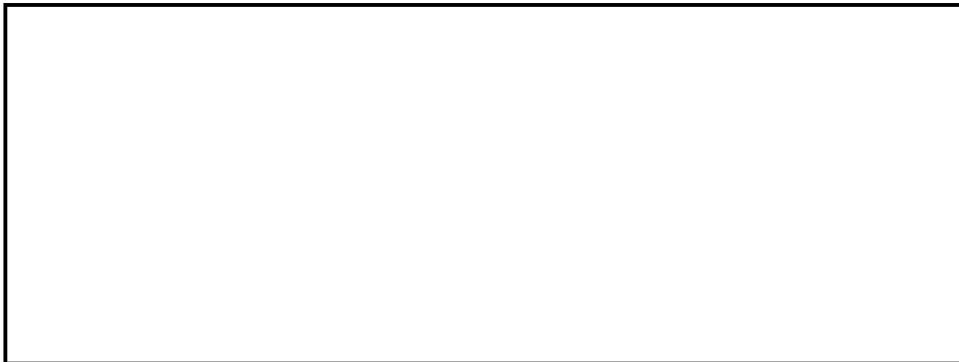
CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

MORI/CDE

SECRET

GROUP 1 Excluded from automatic
downgrading and declassification

THIS MATERIAL CONTAINS INFORMATION AFFECT-
ING THE NATIONAL DEFENSE OF THE UNITED STATES
WITHIN THE MEANING OF THE ESPIONAGE LAWS,
TITLE 18, USC, SECTIONS 793 AND 794, THE TRANSMIS-
SION OR REVELATION OF WHICH IN ANY MANNER TO
AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.



25X1

SECRET

17 April 1964

RECENT ACTIVITIES OF ITALY'S STATE PETROLEUM CORPORATION

ENI, the giant publicly owned petrochemical combine in Italy which Enrico Mattei made a potent and sometimes disturbing force in international oil affairs, has continued its wide-ranging domestic and international activities since his sudden death in November 1962. The new leadership has proved just as dynamic as Mattei's--

and the present center-left government in Rome, except for a new law providing greater scrutiny of the budget, has allowed ENI a relatively free hand. Premier Moro and his ministers are pre-occupied with more pressing problems, and ENI continues to enjoy a certain immunity from criticism because it has been so consistently successful. Still expanding, at home and abroad, ENI has continued its efforts to increase trade with the USSR and to improve relations with US and other foreign oil companies, and it has been even more energetic in pushing its African ventures than in Mattei's day.

25X1

Mattei's Legacy

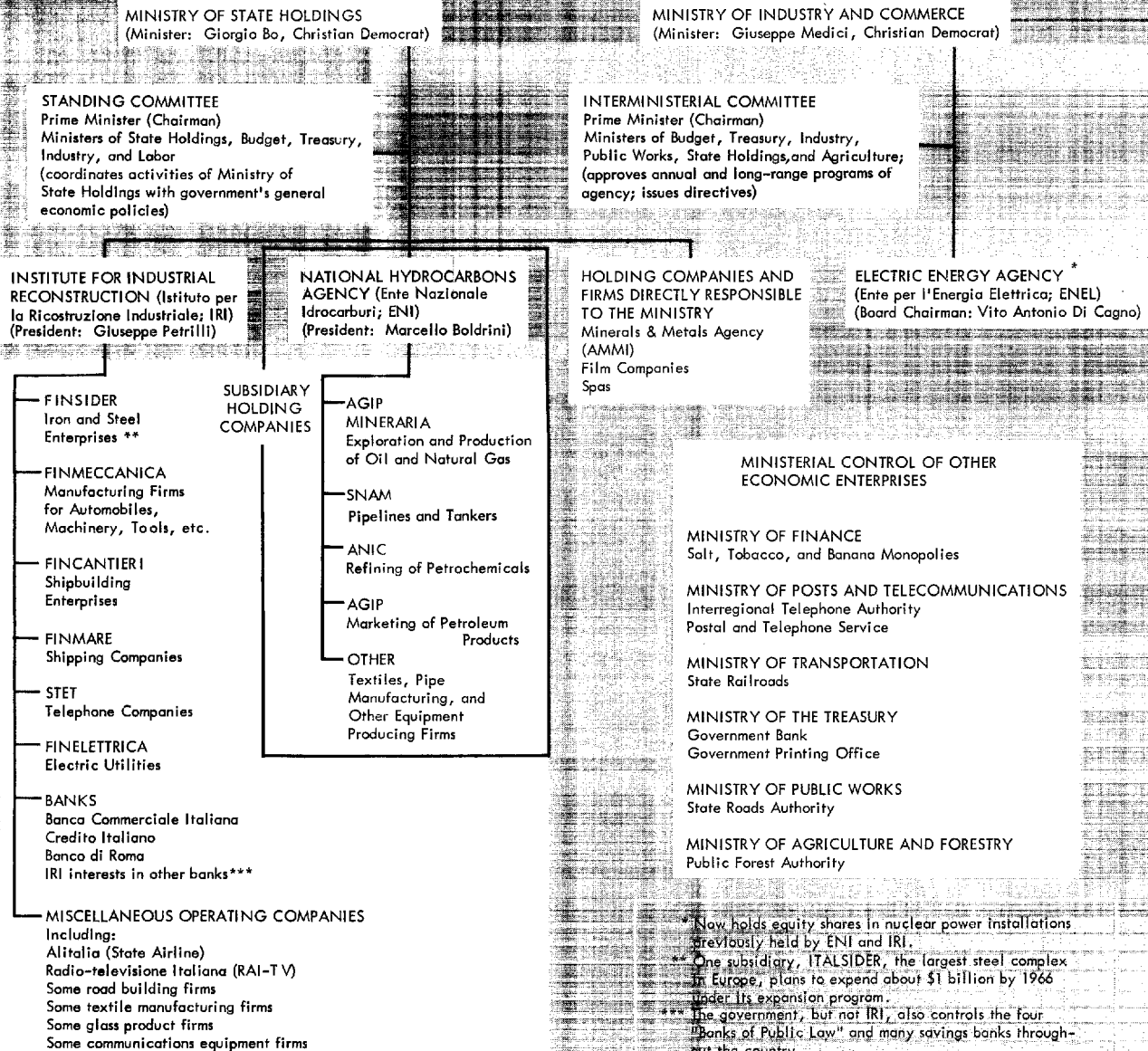
Italy's emergence on the international oil scene was largely Mattei's personal achievement. Named by the then Premier de Gasperi in 1945 to dispose of the Fascist government's almost bankrupt oil monopoly, AGIP, Mattei instead immediately stepped up explorations in defiance of Rome. The discovery of enormous deposits of natural gas in the Po valley in 1946 vindicated his stand and led eventually to the creation of ENI, a complex which now includes more than 75 companies and is still growing. Thereafter Mattei and a succession of Italian governments seemed to agree that "what is good for ENI is good for Italy." Mattei ran ENI virtually as a private empire, subsidized newspapers, and made big contributions to most of the political parties.

He was considered by many to be the most powerful man in Italy.

In a few years' time, ENI greatly reduced Italy's dependence on fuel imports. Fuel marketed by ENI now satisfies half of Italy's total energy needs. By building its refinery at Gela in Sicily and other industrial installations in the South, ENI has also made a major contribution toward rehabilitation of that region, which is one of Italy's principal economic objectives. The varied operations of ENI, with a multi-billion-dollar yearly turnover, include a sizable tanker fleet and a machine-tool business which produces most of the drilling and other equipment needed by the national oil industry.

In addition, ENI's far-flung foreign achievements help satisfy

SECRET

SECRET**ITALY: GOVERNMENT - OWNED ENTERPRISES**

640413 JA

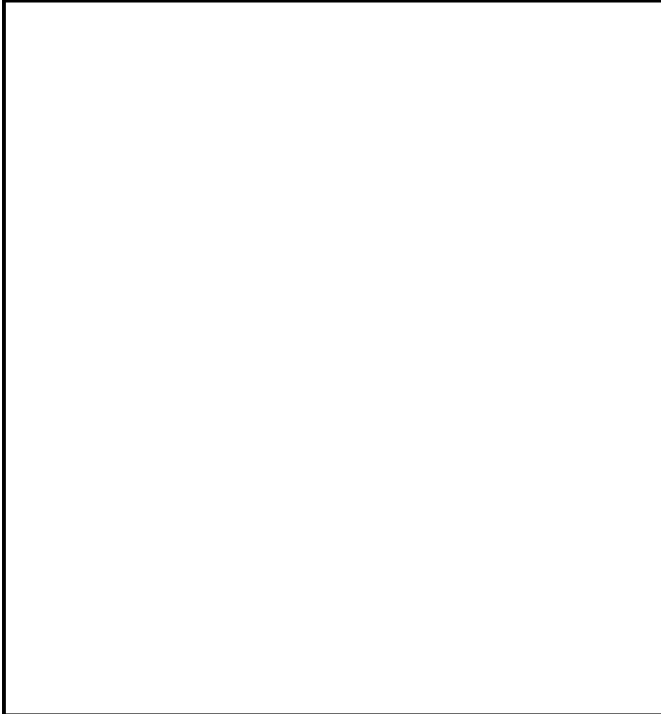
Italy's desire for enhanced world prestige. Mattei was at first not taken seriously by the big international oil companies but later showed himself to be a tough and even ruthless competitor who beat them out on

oil concessions in Iran by offering the government better terms than the standard 50-50 deal. Having shown that ENI was a force to be reckoned with, he adopted a more cooperative attitude toward the large Western

SECRET

companies in the final year or two of his life.

ENI's New Administration

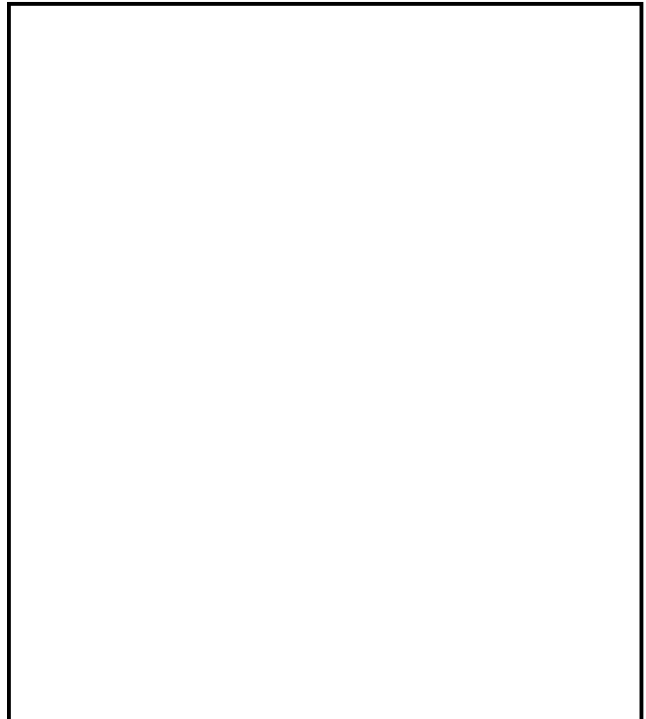


Reorganization of ENI's administration, however, would open many problems for Premier Moro, who is already overburdened with Italy's current economic difficulties and the task of maintaining harmony among the four parties of his coalition--each of which might seek a share of any senior jobs that might become available in the process. One of the first laws passed by the new government provides for closer supervision of publicly owned industries. However, the government commission formally charged with supervising ENI has reportedly not met since the new ENI leadership took over.

While a heavy financial contributor to the Christian Democratic Party, Mattei also contributed to most of the others. Little is known of Cefis' activities in this regard, but he has reportedly halted such subsidies by ENI and is not expected to renew them on the Mattei scale. Cefis' personal preferences appear to lie with the Socialists or the Social Democrats. In the last analysis, however, he is a businessman and would probably work with any democratic government except perhaps one including the Liberals, who might be inclined to try to break up ENI.

Current ENI Financial Status

ENI's annual account for the period 1 May 1962-30 April 1963 showed a profit of only \$388,400



SECRET

SECRET

as compared with almost \$10 million for the preceding year. This apparently sudden drop was partially attributable to the reduction in dividends paid to the holding company by ENI's operating subsidiaries, particularly the marketing company, AGIP. The main pipeline company, SNAM, distributed no dividends.

The profit drop is also partially explained by ENI's current efforts to stress a self-financing policy geared to the present tight money market in Italy and to retaining more capital by increased depreciation allowances. The company needs a large amount of capital to carry out the programs it has mapped out for the next few years, and estimates of its liabilities range from \$100 million to a high of \$1 billion.

However, the real drop in profits may not have been so sharp as shown. The US Embassy notes that in Mattei's day the records of profit and loss were "notoriously unrevealing"; current accounting probably is more candid, but still not completely indicative of the financial picture. ENI is still believed to have a healthy cushion of profits each year from its Po valley natural gas monopoly, although a declining rate of production in these fields is said to have set in, and this source of funds is expected to diminish greatly over the next ten years.

The size and range of ENI's activities, however, continue to

expand. According to a statement by the Minister of State Holdings in 1963, ENI plans to invest \$1,159 million over the next four years as compared with the \$937 million which ENI invested in the ten-year period 1953-62. The complex of ENI refineries under construction or planned for the next three years in Italy, Western Europe, and Africa would provide an added capacity of 320,000 barrels per day. The program is expected to bring the total annual capacity of refineries controlled or partially owned by ENI to 25 million tons, as compared with 8 million tons at the end of 1962. Expert and official forecasts vary, but by the end of 1965 Italy may have as much as 40 percent of the refining capacity of the EEC as a whole.

Shortly before his death, Mattei had indicated concern over the problem of maintaining the high level of production in the ENI manufacturing subsidiaries--which turn out such diverse products as fertilizer, rubber, and textiles. ENI's new management is under even greater pressure to do so because of the current serious deficit in Italy's foreign trade. In negotiations with the private international oil companies and with the Soviet Union, ENI is said to have insisted on the purchase of its products and services in return for its purchases of crude petroleum.

Foreign Oil Contracts

While the new ENI regime will fight any attempts to

SECRET

abrogate its monopoly of domestic oil exploration, it is also continuing Mattei's policy of aggressively seeking new sources of cheap oil in any part of the world. Following a trip to Moscow by Boldrini last year, ENI agreed to purchase 4.2 million tons a year of Soviet crude over a period extending to the end of 1970.

The new leadership has reaffirmed Mattei's declaration that ENI was buying Soviet crude because such purchases reduced ENI's dependence on its major Western competitors, and because the USSR offered favorable rates on barter terms. ENI spokesmen justify the Soviet and other foreign connections on the ground that Italy must have a variety of sources of supply. They say the importance of this "cannot be overemphasized" because of sheer volume of its import requirements, now running at about 43 million tons per year. The flow of Soviet crude to Italy from the Black Sea would not be affected if the Suez Canal should be cut off.

Official spokesmen have indicated that ENI may expand its petroleum purchases under its 1966-69 contracts with the USSR; an earlier provision that not more than 14 percent of Italy's crude oil imports were to come from that source has been dropped from these agreements. Nevertheless, in view of projected future increases in total Italian petroleum imports, Foreign Ministry officials predict that the portion bought from the USSR will actually fall below 14 percent.

The ENI president also has stated that he had discussed "great projects" with the Soviets, including plans for ENI to construct a refinery in the USSR which could "cover the entire range of petroleum industry products." Capacity of the refinery would be about 18 million tons, making it the largest in the world.

Boldrini told the American Embassy in Rome he was pleased with the progress made in developing business arrangements with US oil companies.

ENI's most important foreign contract to date--signed with the Gulf Oil Corporation in February--assures ENI of a crude oil supply estimated to be worth \$20 million. In addition one of ENI's subsidiaries gets full control of Gulf's concession for the exploitation of the Ragusa oil field in Sicily, the largest oil deposit in Italy.

In 1963 Standard Oil of New Jersey contracted to supply ENI with 10-12 million tons of crude from the Middle East over



25X1

SECRET

SECRET

a five-year period. There are also reports that Esso has agreed to purchase goods from ENI subsidiaries.

Expansion in Africa and Asia

Boldrini has said ENI will continue to seek to expand its operations in Africa.

ENI already has a foothold in a number of African countries which have allowed it exploration concessions, refinery rights, or marketing outlets. Boldrini sees excellent prospects for rapid commercial growth there.

Among the initiatives ENI has undertaken in Africa since Mattei's death is the 600,000-ton oil refinery under construction at Banana, near Matadi in the Congo, which will be able to produce an estimated 12,000 barrels of petroleum products daily. This is a 50-50 venture between the Congolese Government and ANIC, an ENI subsidiary. This rate of production is beyond the Congo's needs, and competing oil companies have charged that ENI is seeking to squeeze them out of the distribution field for the new refinery's products.

During 1963 ENI also made new investments in its subsidiaries in Sudan and Kenya. It is expected to make a capital investment of \$14 million in Nigeria during the next four years.

ENI now is making a strong bid for the Algerian domestic market hitherto dominated by France. It recently signed an

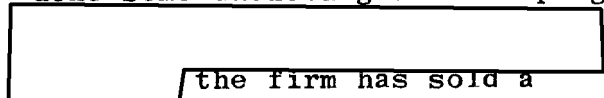
agreement on a 50-50 basis with the Ben Bella government to build a refinery at Arzew with an initial capacity of 1.25 million metric tons and the possibility of expansion to 2 million tons at a later date. The joint enterprise has been guaranteed half of the Algerian domestic market for petroleum products and the entire market for asphalt. During the first ten years, exportable surpluses would be sold abroad by ENI. This operation is generally viewed as a first step toward a sharp expansion of ENI activities in Algeria.

ENI may also participate in the development of India's oil resources. The question of increased participation was recently discussed in New Delhi



25X1

ENI has also reportedly done some dickering with Peiping.



25X1

the firm has sold a small refinery to Communist China and is also negotiating to supply the Chinese with more synthetic rubber. Although the projected refinery involves only about \$5 million, it represents an opening wedge for ENI--one of the first Western oil companies to resume dealings with mainland China.

Outlook

ENI is probably overextended by private oil company

SECRET

standards, but, because it is a government agency backed by government guarantees, it is very largely insulated from the consequences it might otherwise suffer. Its long-term liabilities are big relative to its assets, but they have a different appearance viewed against the assets of the Italian state.

Future Italian governments will probably continue to underwrite ENI's efforts. It is also likely, however, that in due course efforts may be made to curtail ENI's activities. Since ENI is one of the most important organizations in all of Italian industry, it and other government agencies would inevitably be affected by any determined ef-

fort to reshape the country's economy along more rational lines.

Such an effort is, however, not yet in sight, and so far ENI has apparently not even become a subject of active party controversy. The magnitude of the other problems calling for drastic reform--the tax system, the educational system, the civil service--is so great that the present government may well be content to leave relatively undisturbed an organization which has been a major factor in achieving Italy's postwar economic miracle, in helping to rehabilitate Southern Italy, and in boosting Italian prestige abroad.

25X1

25X1

* * *

SECRET

Approved For Release 2006/12/27 : CIA-RDP79-00927A004400080004-4

SECRET

SECRET

Approved For Release 2006/12/27 : CIA-RDP79-00927A004400080004-4